



## CITY OF LODI COUNCIL COMMUNICATION

**AGENDA TITLE:** Consider Impact of State Adopted Budget and Amend Budget Via Resolution As Needed In Response to Proposition 1A Property Tax 'Borrowing'

**MEETING DATE:** August 19, 2009

**PREPARED BY:** Deputy City Manager

**RECOMMENDED ACTION:** Consider impact of State adopted budget and amend budget via resolution as needed in response to the Proposition 1A Property Tax 'borrowing'.

**BACKGROUND INFORMATION:** The State of California adopted budget for fiscal year 2009-10 included a number of provisions that affected local government agencies. The most significant financial provision affecting local agencies is the forced "loan" of property tax collections of approximately \$1.9 billion statewide, representing 8 percent of the property tax collections of local agencies, to the State under Proposition 1A.

### **Proposition 1A 'Loan'**

The most significant impact for the City of Lodi is the forced 'loan' of property tax dollars to the State under Proposition 1A. The enabling legislation instructs county auditors to shift 8 percent of each local government's share of property taxes to a special fund. The legislation also allows for a 'hardship exemption', which, if granted, would increase the amount 'borrowed' from the remaining entities within that county. Absent any hardships, it is estimated that this 'loan' will remove about \$1.2 million from the General Fund<sup>1</sup>. Actual amount of the 'loan' is not known at this time, but is not expected to exceed \$1.5 million. 'Borrowed' funds are to be repaid by the state, with interest, by June 30, 2013.

Staff believes it is prudent to act quickly to address this revenue loss. Options to consider include:

- Reducing revenues and expenditures by \$1.2 million in the General Fund;
- Participating in the 'securitization' of the 'loan' through the California Communities financing;
- Loaning funds from the Electric Utility to the General Fund;
- Loaning funds from PCE Settlement Funds to the General Fund; or
- A combination of the above options.

### ***Reducing revenues and expenditures***

As you are aware, the City recently adopted a balanced budget that included significant expenditure reductions combined with substantial contributions from employee groups. Additional reductions cannot be made to base expenditures without elimination of programs and staff layoffs. If the Council wishes to reduce expenditures in the General Fund, the following is a list of possible reductions to generate a savings of about \$1.2 million.

<sup>1</sup> City of Lodi Fiscal Year 2009-10 property tax budget is \$8,475,000; California Local Government Finance Almanac estimates \$1.2 million property tax reduction for the City of Lodi.

APPROVED:   
Blair King, City Manager

<b>Department</b>	<b>Program/Function</b>	<b># of Positions</b>	<b>Savings</b>
Police	Eliminate one-half of Code Enforcement (2 positions)	2	\$198,000
	Eliminate 2 officer positions	2	\$175,000
Fire	Eliminate 3 firefighter positions	3	\$250,000
Internal Services	Eliminate the Purchasing function (3 positions)	3	\$210,000
Parks	Eliminate vacant maintenance position	1	\$63,000
Economic Development	Reduce Community Events line item		\$20,000
Non Departmental	Reduce Utility expenses		\$42,500
Administration	Eliminate Protocol Account funding		\$12,500
Contributions To:			
Library	Eliminate 1 position or funding for part-time staff	1	\$50,000
Community Development	Reduce various Service and Supply line items		\$5,000
Community Center	Reduce funding for part-time staff		\$35,000
Recreation	Reduce funding for part-time staff		\$15,000
Streets	Eliminate two Streets Maintenance		
All General Fund Departments	Eliminate all cell phones in the General Fund		\$56,000
Totals		14	\$1,262,000

Funding for positions reflects a savings for ten months of the fiscal year.

The primary advantage of this option is that the City would be operating within the current year revenue stream. Disadvantages of this option include laying off up to 14 employees, significantly impacting Code Enforcement and Law Enforcement services, significantly hampering Fire Protection services, eliminating the central purchasing function of the City, and reducing staffing in a variety of other programs and functions.

### ***Securitization of the 'loan' through California Communities***

As part of the State budget package, local governments have the opportunity to receive the monies being 'borrowed' by the State upfront through a securitization financing offered by California Communities, a joint powers authority sponsored by the League of California Cities and California State Association of Counties. California Communities will issue bonds securitizing the future payments by the State and remit the proceeds of the bonds to the local governments who opt to participate in the securitization. This securitization program is intended to replace 100 percent of the funds 'loaned' by local agencies to the state. The State will repay the bondholders by paying off the outstanding bonds, including interest costs. The state will also pay the costs of issuance of bonds under the California Communities program. Structure, timing and application details of this program are currently being determined, however, it is expected that funds would be made available to local agencies by the end of November.

If a city bonds against the Prop 1A loan, the State will pay interest costs on the bonds up to 8 percent. If a city decides not to bond against the Prop 1A loan, the state will pay the city interest at a rate greater than that of the Pooled Money Investment Account (PMIA) rate, but not to exceed 6 percent. The State Controller will announce the interest rate no later than September 28.

The primary advantage of this option is that the City receives its funds timely and can continue operations. No budgetary adjustments would be necessary. The primary disadvantage of this option relates to the unknowns surrounding the California Communities bond issue. At this writing, it is not known how many entities will participate in this program. Participation rates will determine the size of the bond issue and may also affect the interest rate payable on the underlying bonds. It is also unknown how the capital markets will respond to this issue given that the security for the bonds is the State's promise to repay in three years.

#### ***Loan from Electric Utility to General Fund***

The City could have the General Fund borrow some, or all, of the 'loaned' amount from the Electric Utility Fund. Such a borrowing is within the purview of the Council. If this option were chosen, staff would recommend that the interest payment from the state be posted to the Electric Utility to the extent that it is equal to the rate of return on the City treasury pool (FY 2008-09 pool rate was 2.11% while the PMIA rate at August 10, 2009 was 0.91%). In the event the state interest payment exceeds the rate of return on the City treasury pool, staff would recommend that such excess funds be posted to the General Fund.

Prudent management of Electric Utility cash balances and Retained Earnings provides the City with significant flexibility to address the General Fund revenue shortfall caused by the State 'borrowing' of funds. The Council adopted a policy regarding Electric Utility reserves in January 2007 that essentially set the minimum reserve level at \$12.9 million. Estimated cash reserves for the Electric Utility at June 30, 2009 are expected to be about \$11.6 million. Using a portion of the reserves as a loan to the General Fund will not materially affect the operations of the Electric Utility.

Advantages of this option include the ability to continue General Fund operations without reduction of programs or staff. Additionally, this option provides the ability for the City to generate additional interest income as the interest rate established by the Controller will exceed the PMIA rate that the City currently receives on invested cash balances. Finally, this option eliminates the uncertainties associated with the securitization option discussed above. The primary disadvantage of this option is if the State defaults on its promise to repay the 'loan', thereby leaving the General Fund with an outstanding loan.

#### ***Loan from PCE Settlement Funds to the General Fund***

Similar to the above scenario, the City has funds available in the PCE Settlement account that could be loaned to the General Fund to cover some, or all, of the property tax 'loan'. The PCE Settlement fund has approximately \$16 million available and expects to spend down about \$2 million during the next three years. As such, this fund has about \$14 million available; a portion of which could be loaned to the General Fund to offset the revenue loss.

If this option were chosen, staff would recommend that interest income from the state be apportioned as discussed above under the Electric Utility loan. This option carries the same advantages and disadvantages as the Electric Utility loan option.

Staff recommends that Council approve an internal loan between the General Fund and other city funds in an amount not to exceed \$1.5 million.

**FISCAL IMPACT:** The City expects to lose about \$1.2 million due to the Proposition 1A 'loan'. Approval of a loan between the General Fund and other city funds will mitigate this revenue loss and allow General Fund operations to continue without loss of programs or staff.

**FUNDING AVAILABLE:** Cash balances in Electric Utility.

  
Jordan Ayers  
Deputy City Manager

RESOLUTION NO. 2009-116

A RESOLUTION OF THE LODI CITY COUNCIL AMENDING THE  
CITY OF LODI FINANCIAL PLAN AND BUDGET FOR THE FISCAL  
YEAR BEGINNING JULY 1, 2009 AND ENDING JUNE 30, 2010,  
AUTHORIZING THE CITY MANAGER TO PURSUE FUNDING  
THROUGH THE CALIFORNIA COMMUNITIES FINANCING, AND  
FAILING THAT, TO EXECUTE A LOAN TO THE GENERAL FUND  
FROM UNRESTRICTED PCE SETTLEMENT FUNDS FOR THE  
ACTUAL AMOUNT OF THE PROPOSITION 1A LOAN TO THE STATE

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WHEREAS, the City Council adopted the Fiscal Year 2009-10 Financial Plan and Budget on June 10, 2009, by Resolution 2009-76; and

WHEREAS, the State of California adopted its Fiscal Year 2009-10 budget on July 28, 2009; and

WHEREAS, provisions in the State adopted budget call for a forced "loan" of approximately \$1.9 billion of property tax collections from local agencies to the State; and

WHEREAS, the City of Lodi share of the forced "loan" is estimated to be about \$1.2 million, but could be higher; and

WHEREAS, the City Council has considered the impact of a loss of up to \$1.5 million on the City General Fund; and

WHEREAS, the City Council has determined that it must act quickly to mitigate the loss of funds and preserve services to the residents of the City.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lodi does hereby authorize the City Manager to pursue funding through the California Communities financing for the full amount of the Proposition 1A loan; and

FURTHER, BE IT RESOLVED that, if financing through California Communities is not feasible, the City Council of the City of Lodi does hereby authorize the City Manager to execute a loan to the General Fund from unrestricted PCE Settlement funds for the actual amount of the Proposition 1A loan to the State under the following principal business points:

- Loan amount shall be for the actual amount of the Proposition 1A loan to the State and shall not exceed \$1.5 million;
- Repayment to be coterminous with receipt of payment, or payments, from the State under the terms of the Proposition 1A loan authorized in the state budget for 2009-10, however, term shall not extend beyond June 30, 2013;
- Interest to be paid to loaning fund at the rate that loaned funds would have earned in the City treasury pool; and
- Interest received from the State in excess of the City treasury pool rate to be deposited to the General Fund.

Dated: August 19, 2009

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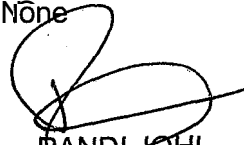
I hereby certify that Resolution No. 2009-116 as passed and adopted by the City Council of the City of Lodi in a regular meeting held August 19, 2009, **by** the following votes:

**AYES:** COUNCIL MEMBERS – Katzakian, Mounce, and Mayor Hansen

**NOES:** COUNCIL MEMBERS – Hitchcock and Johnson

**ABSENT:** COUNCIL MEMBERS – None

**ABSTAIN:** COUNCIL MEMBERS – None

  
RANDI JOHL  
City Clerk



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# 2009/10 Budget Adjustments

Response to State Proposition 1A 'Loan'

Lodi City Council  
August 19, 2009

# 2009-10 Budget Adjustments: Overview

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- State budget includes a forced property tax ‘loan’ of about \$1.9 billion from local agencies; representing 8% of property tax collections
  - ‘Loan’ generally assumes there is a willing lender
- State has expanded definition of property tax
  - Includes In-Lieu Vehicle License Fees
  - Includes Sales Tax Triple Flip

# 2009-10 Budget Adjustments: Overview

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- Lodi estimated share \$1.2 million (per League of California Cities consultant)
- Local agencies can claim ‘hardship’
  - If granted, other agencies within the County responsible for difference
- Reduction of General Fund revenue





# 2009-10 Budget Adjustments: Options

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- Choices for the City Council
  - Reduce General Fund Revenue and Expenditures
  - Participate in securitization by California Communities
  - Loan funds from Electric Utility
  - Loan funds from unrestricted PCE settlements
  - Combination of the above



# 2009-10 Budget Adjustments: Options

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- Reduce General Fund Revenue and Expenditures
  - Identify specific reductions or cuts
  - Will result in reduction of services
  - Across-the-board reductions not recommended at this time

# 2009-10 Budget Adjustments: Options

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## □ Advantages

- City operates within current year revenue stream
- City receives interest from State in three years

## □ Disadvantages

- Eliminate some services and significantly reduce others

# 2009-10 Budget Adjustments: Options

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- ❑ California Communities bonds
  - California Communities is a JPA between the League of Cities and California State Association of Counties
  - Authorized to issue bonds to securitize the Prop 1A loan
  - Program to fully reimburse local agencies with 100% of funds borrowed by State
  - City participated in 2005 VLF RANS



## 2009-10 Budget Adjustments: Options

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- ❑ Details of program still being worked out
- ❑ State will pay issue costs on bonds and interest up to 8%

# 2009-10 Budget Adjustments: Options

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## □ Advantages

- City gets cash timely
- Continues operations as budgeted

## □ Disadvantages

- Unknown: How will capital markets view this offering?
- Unknown: How many agencies will participate?
- Unknown: Program parameters?
- Risk of State default in three years

# 2009-10 Budget Adjustments: Options

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- Loan from Electric Utility
  - Electric Utility cash reserves estimated to be \$11.6 million at June 30, 2009
    - Lower than Council minimum reserve level of \$12.9 million per 2007 policy
- Loan will not materially affect Electric Utility operations



## 2009-10 Budget Adjustments: Options

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- City will receive interest from State at a rate higher than that earned by reserves
  - Propose to make Electric Utility whole and post excess earnings to the General Fund



# 2009-10 Budget Adjustments: Options

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## □ Advantages

- City operates in FY 2009/10 as budgeted
- City generate 'legal' arbitrage
- Eliminates uncertainties associated with the California Communities financing

## □ Disadvantage

- Risk of State default in three years

# 2009-10 Budget Adjustments: Options

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- Loan from unrestricted PCE settlement funds
  - Approximately \$16 million in PCE funds
  - Expected drawdown of about \$2 million over the next three years from restricted funds
  - Settlements from City insurance carriers are unrestricted (approximately \$8 million)

# 2009-10 Budget Adjustments: Options

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## □ Advantages

- City operates in FY 2009/10 as budgeted
- City generate 'legal' arbitrage
- Eliminates uncertainties associated with the California Communities financing

## □ Disadvantage

- Risk of State default in three years



# 2009-10 Budget Adjustments: Options

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- Combination alternative
  - Close revenue shortfall through combination of options



## 2009-10 Budget Adjustments: Options

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- Staff recommends internal loan between the General Fund and other City funds